

DYNARESOURCE INC  
Form 10-K  
April 08, 2019

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-K**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended: December 31, 2018

**OR**

**TRANSITION REPORT UNDER SECTION 13 OF 15(d) OF THE EXCHANGE ACT OF 1934**

From the transition period \_\_\_\_\_ to \_\_\_\_\_.

Commission File Number: 000-30371

**DYNARESOURCE, INC.**

(Exact name of registrant as specified in its charter)

Delaware 94-1589426

(State or other jurisdiction of incorporation or organization (IRS Employer Identification No.))

222 W Las Colinas Blvd., Suite 1910 North Tower, Irving, Texas 75039

(Address of principal executive offices)

Registrant's telephone number, including area code: (972) 868-9066

Securities registered pursuant to Section 12(b) of the Act:

None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock; \$0.01 Par Value

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes  No

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Indicate by check mark whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days:

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (p. 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (p. 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.  
 [X]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

<input type="checkbox"/> Large accelerated filer	<input type="checkbox"/> Accelerated filer
<input type="checkbox"/> Non-accelerated filer (Do not check if a smaller reporting company)	<input type="checkbox"/> Smaller reporting company
	<input type="checkbox"/> Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13 (a) of the Exchange Act.

Yes  No  [X]

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act):

Yes  No  [X]

The aggregate market value of the voting and non-voting common equity, par value \$0.01 per share, held by non-affiliates computed by reference to the price at which the common equity was last sold, as of the last business day of the registrant's most recently completed fiscal year end, December 31, 2018, was \$14,751,511 based on the closing price of \$1.20 per share as reported on the OTCQB. For purposes of this computation, all officers, directors, subsidiaries, and 10% beneficial owners of the registrant are deemed to be affiliates. Such determination should not be deemed an admission that such officers, directors or 10% beneficial owners are, in fact, affiliates of the registrant.

There were 17,722,825 shares outstanding of each of the registrant's classes of common stock (only 1 class) as of the latest practicable date (March 31, 2019).

**DOCUMENTS INCORPORATED BY REFERENCE**

Listed below are documents incorporated herein by reference.

None.

2

**TABLE OF CONTENTS**

**PART I**

ITEM 1. BUSINESS	5
ITEM 1A. RISK FACTORS	8
ITEM 1B. UNRESOLVED STAFF COMMENTS	16
ITEM 2. PROPERTIES	16
ITEM 3. LEGAL PROCEEDINGS	30
ITEM 4. MINE SAFETY DISCLOSURES	33

**PART II**

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES	34
ITEM 6. SELECTED FINANCIAL DATA	34
ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION	35
ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	49
ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA	50
ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE	74
ITEM 9. CONTROLS AND PROCEDURES	74
ITEM 9B. OTHER INFORMATION	75

**PART III**

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE	75
ITEM 11. EXECUTIVE COMPENSATION	80
ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS	81
ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE	82
ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES	82

**PART IV**

ITEM 15.	EXHIBITS AND FINANCIAL STATEMENT SCHEDULES	84
ITEM 16.	FORM 10K SUMMARY	84

85

**SIGNATURES**

**EXHIBIT INDEX**

Exhibit 31.1	CERTIFICATION OF CHIEF EXECUTIVE OFFICER, PURSUANT TO RULE 13A-14(A) OF THE EXCHANGE ACT, AS ENACTED BY SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002
Exhibit 31.2	CERTIFICATION OF CHIEF FINANCIAL OFFICER, PURSUANT TO RULE 13A-14(A) OF THE EXCHANGE ACT, AS ENACTED BY SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002
Exhibit 32.1	CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER, PURSUANT TO 18 UNITED STATES CODE SECTION 1350, AS ENACTED BY SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

## **FORWARD-LOOKING STATEMENTS**

This annual report on Form 10-K includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, which we refer to in this annual report as the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, which we refer to in this annual report as the Exchange Act. Forward-looking statements are not statements of historical fact but rather reflect our current expectations, estimates and predictions about future results and events. These statements may use words such as “anticipate,” “believe,” “estimate,” “expect,” “intend,” “predict,” “project” and similar expressions as they relate to us or our management. When we make forward-looking statements, we are basing them on our management’s beliefs and assumptions, using information currently available to us. These forward-looking statements are subject to risks, uncertainties and assumptions, including but not limited to, risks, uncertainties and assumptions discussed in this annual report. Factors that can cause or contribute to these differences include those described under the headings “Risk Factors” and “Management Discussion and Analysis and Plan of Operation.”

If one or more of these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may vary materially from what we projected. Any forward-looking statement you read in this annual report reflects our current views with respect to future events and is subject to these and other risks, uncertainties and assumptions relating to our operations, results of operations, growth strategy and liquidity. All subsequent written and oral forward-looking statements attributable to us or individuals acting on our behalf are expressly qualified in their entirety by this paragraph. You are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date of this annual report. The Company expressly disclaims any obligation to release publicly any updates or revisions to these forward-looking statements to reflect any change in its views or expectations. The Company can give no assurances that such forward-looking statements will prove to be correct.

## **CAUTIONARY NOTE TO UNITED STATES INVESTORS—INFORMATION CONCERNING PREPARATION OF RESOURCE AND RESERVE ESTIMATES**

The Company is an “OTC Reporting Issuer” as that term is defined in BC Multilateral Instrument 51-105, *Issuers Quoted in the U.S. Over-the-Counter Markets*, promulgated by the British Columbia Securities Commission.

In Canada, an issuer is required to provide technical information with respect to mineralization, including reserves and resources, if any, on its mineral exploration properties in accordance with Canadian requirements, which differ significantly from the requirements of the United States Securities and Exchange Commission (the “SEC”) applicable to registration statements and reports filed by United States companies pursuant to the Securities Act or the Exchange Act. As such, certain disclosures of mineralization under Canadian standards may not be comparable to similar information made public by United States companies subject to the reporting and disclosure requirements of the SEC



and not subject to Canadian securities legislation.

While these terms are recognized and required by Canadian securities legislation (under National Instrument 43-101 (“NI 43-101”), entitled *Standards of Disclosure for Mineral Projects*), the SEC does not recognize these terms. Investors in the United States are cautioned not to assume that any part or all of the mineral deposits in these categories will ever be converted to reserves. In addition, inferred mineral resources have a great amount of uncertainty as to their existence and economic and legal feasibility. It cannot be assumed that all or any part of a measured mineral resource, indicated mineral resource or inferred mineral resource will ever be upgraded to a higher category. Under Canadian securities legislation, estimates of inferred mineral resources may not form the basis of feasibility or pre-feasibility studies, although they may form, in certain circumstances, the basis of a “preliminary economic assessment” as that term is defined in NI 43-101. U.S. investors are cautioned not to assume that any part or all of any reported measured, indicated, or inferred mineral resource estimates referred to in the NI 43-101 Technical Report and Mineral Resource Estimate (compiled for DynaResource de Mexico SA de CV) are economically or legally mineable.

Under U.S. standards, as set forth in SEC Industry Guide 7, mineralization may not be classified as a “reserve” unless a determination has been made that the mineralization could be economically and legally produced or extracted at the time the reserve determination is made. The SJG Property as described in this Annual Report on Form 10-K is without known reserves. Mineral resources which are not classified as mineral reserves have not “demonstrated economic viability.” The quantity of resources and the quality (grade) of resources reported as “Indicated” and “Inferred” mineral resources in the mineral resource estimate compiled for DynaResource de Mexico SA de CV, under the NI 43-101 Mineral Resource Estimate filed by the Company on SEDAR, are not disclosed in this Form 10-K. SEDAR is Canada’s System for Electronic Document Analysis and Retrieval, the mandatory document filing and retrieval system for Canadian public companies. There has been insufficient exploration to define any mineral reserves on the SJG Property, and it is not certain if further exploration will result in the definition of mineral reserves.

## **PART I**

### **ITEM 1. BUSINESS**

#### **History and Organization**

The Company is a minerals investment, management, and exploration company, and currently conducting test mining and pilot milling operations through an operating subsidiary in México, with specific focus on precious and base metals in México. The Company was originally incorporated in the State of California on September 28, 1937, under the name West Coast Mines, Inc. In November 1998, the Company re-domiciled from California to Delaware and changed its name to DynaResource, Inc. (“DynaUSA”).

We currently own 80% of the outstanding shares of DynaMéxico, and DynaMéxico currently holds a lien on 20% of the outstanding shares of DynaMéxico. DynaMéxico owns 100% of the mining concessions, equipment, camp and related facilities which comprise the San Jose de Gracia Property, in northern Sinaloa State, México. We also own 100% of Mineras de DynaResource S.A. de C.V. (“DynaMineras”), the exclusive operator of the San José de Gracia Project, under contract with DynaMéxico. DynaMineras currently conducts test mining and pilot milling operations, and other exploration activities in México.

In 2000, the Company formed DynaMéxico for the purpose of acquiring and holding mineral properties and mining concessions in México. DynaMéxico owns a portfolio of mining concessions which comprise the San José de Gracia Project (“SJG”). The mining concessions which comprise the SJG District cover 69,121 hectares (170,802 acres) on the west side of the Sierra Madre mountain range. At the incorporation of DynaMéxico, 100 shares of Fixed Capital Series “A” shares were issued, with DynaUSA receiving 99 shares and its CEO receiving 1 share.

In 2005, the Company formed DynaMineras. DynaMineras entered into an operating agreement with DynaMéxico on April 15, 2005. Because of that agreement and subsequent amendments to that agreement, DynaMineras is the exclusive operating entity for the SJG Project.

Also in 2005, the Company formed another wholly owned subsidiary, DynaResource Operaciones, S.A. de C.V. (“DynaOperaciones”). DynaOperaciones entered into a personnel management agreement with DynaMineras and, because of that agreement, is the exclusive management company for personnel and consultants involved at the SJG Project.

From January 2008 through March 2011, DynaMéxico issued 100 Variable Capital Series “B” Shares to Goldgroup Resources Inc., a wholly owned subsidiary of Goldgroup Mining Inc., in Vancouver, BC. (“Goldgroup”), in exchange for Goldgroup’s total capital contributions of \$18,000,000 to DynaMéxico. At the time of the issuance of the 100 Series B Shares to Goldgroup, Goldgroup owned 50% of the outstanding capital shares of DynaMéxico.

On May 17, 2013, DynaUSA agreed to acquire a stock certificate for 300 Series “B” Variable Capital Shares of DynaMéxico, in exchange for the settlement of accounts receivable from DynaMéxico in the amount of \$31,090,710 Mexican Pesos (approximately \$2.4 million USD). After giving effect to the issuance of the 300 Series B Shares on June 21, 2013, DynaUSA owns 80% of the total outstanding Capital of DynaMéxico. (See table representation of the outstanding Capital of DynaMéxico below). The exchange of shares by DynaMéxico for amounts payable to DynaUSA was unanimously approved by shareholders at a meeting of the shareholders of DynaMéxico, held on the second call for shareholder's meeting on May 17, 2013 in Mazatlán, Sinaloa, México. The date of issuance of the 300 Series B Share Certificate was June 21, 2013. As a result of the issuance to DynaUSA of the 300 Variable Capital shares for amounts owed to DynaUSA, the accounts payable amount owed by DynaMéxico to DynaUSA was retired in full.

After giving effect to the issuance to DynaUSA of the 300 Series B Variable Capital shares of DynaMéxico as described above, the current outstanding Capital of DynaMéxico is set forth in the table below:

<b>DynaMéxico Shareholder</b>	<b>Fixed Capital Series "A" Shares</b>	<b>Variable Capital Series "B" Shares</b>	<b>Total Capital Shares(Series A and B)</b>
DynaResource, Inc.	099	300	399
Koy W. (“K.D.”) Diepholz	001	-	001
Goldgroup Resources Inc.	-	100	100
<b>Total Capital Issued</b>	<b>100</b>	<b>400</b>	<b>500</b>

DynaUSA currently owns 80% of the outstanding capital shares of DynaMéxico.



## **Company Ownership and Description of Subsidiaries**

A description of the subsidiaries owned by the Company and its ownership in each is summarized below:

### **DynaResource de México, S.A. de C.V.:**

80% Owned by DynaResource, Inc.

100% owner of the San Jose de Gracia Property;

### **Mineras de DynaResource, S.A. de C.V.:**

100% Owned by DynaResource, Inc.

Exclusive Operator of the San Jose de Gracia Project;

Entered into Exploitation Agreement (“EAA”) with DynaMéxico (See below);

Entered into 20-year surface Rights agreement with the Santa Maria Ejido;

### **DynaResource Operaciones de San Jose de Gracia, S.A. de C.V.:**

100% Owned by DynaResource, Inc.

Personnel Management Company at San Jose de Gracia;

Exploitation Amendment Agreement (“EAA”)

On May 15, 2013, DynaMineras entered into an Exploitation Amendment Agreement (“EAA”) with DynaMéxico. The EAA grants to DynaMineras the right to finance, explore, develop and exploit the SJG Property, in exchange for the following:

(A) Reimbursement of all costs associated with financing, maintenance, exploration, development and exploitation of the SJG Property, which costs are to be charged and billed by DynaMineras to DynaMéxico; and

(B) After Item (A) above, 75% of gross receipts received by DynaMéxico from the sale of all minerals produced from SJG, to the point that DynaMineras has received 200% of its advanced funds; a 2.5% Net Smelter Royalty on all minerals sold from SJG over the term of the EAA. The total advances made by DynaMineras to DynaMéxico as of December 31, 2017 are \$6,125,000.

(C) After items (A) and (B) above, 50% of all gross receipts received by DynaMéxico from the sale of all minerals produced from SJG, and throughout the term of the EAA.

The EAA is the third and latest Amendment to the original Contract Mining Services and Mineral Production Agreement (the “Operating Agreement”), which was previously entered into by DynaMineras and DynaMéxico in April 2005, and in which DynaMineras was named the Exclusive Operating Entity at SJG. The Operating Agreement was first amended in September 2006 (the “First Amendment”), and amended again at July 15, 2011 (the “Second Amendment”). The Term of the Second Amendment is 20 years, and the EAA (Third Amendment) provides for the continuation of the 20 Year Term from the date of the Second Amendment (July 15, 2011).

Our objective is to increase the value of our shares through the exploration, development and extraction of gold, silver and other valuable minerals. We generally conduct our exploration activities as sole operator and our current flagship property is San Jose de Gracia.

Our principal executive office is located at 222 W. Las Colinas Blvd., Suite 1910 North Tower, Irving, Texas 75039. We can be reached by phone at (972) 868-9066 and by fax at (972) 868-9067. The Company’s website is [www.dynaresource.com](http://www.dynaresource.com).

In this report, “DynaResource, Inc.”, the “Company”, “DynaUSA”, “our” and “we” refer to DynaResource, Inc. DynaResource de México SA de CV, the 100% owner of the mining concessions, camp, equipment, and related interests to San Jose de Gracia Property, is referred to a “DynaMéxico”. DynaUSA owns 80% of DynaMéxico. Mineras de DynaResource SA de CV, the named exclusive operator at San Jose de Gracia Property under agreement with DynaMéxico, is referred to as “DynaMineras”. DynaUSA owns 100% of DynaMineras. DynaResource Operaciones de San Jose de Gracia SA de CV, and the named manager of personnel and consultants who are actively involved at San Jose de Gracia under agreement with DynaMineras and DynaMéxico, is referred to as “DynaOperaciones”. DynaUSA owns

100% of DynaOperaciones. The San Jose de Gracia Property is referred to as “SJG”, or the “SJG Property”, or the “SJG Project”, or the “SJG District”. DynaMéxico owns 100% of the SJG District. Further in this report, “Au” represents gold; “Ag” represents silver; “oz.” represents ounces; “gpt” represents grams per metric tonne; “ft” represents feet; “m” represents meter, “km” represents kilometer; and “sq” represents square.

## **Segment Information**

Our only current operating segment is México.

## **Products**

The end use product produced at our test mining and pilot milling operations at SJG is either in the form of primarily gold-silver Dore, or primarily gold-silver concentrates. The end use product from current activities generally consists of approximately 100% concentrate and 0% Dore. Dore is an alloy consisting primarily of gold and silver but also containing other metals. Dore is sent to refiners to produce bullion that meets the required market standard of 99.95% gold and 99.9% silver. Gold-silver concentrates, or simply concentrate, is raw precious metals materials that has been crushed and ground finely to a sand-like product where gangue (waste) and non-precious metals are removed or reduced, thus concentrating the precious metals component. Concentrates processed and produced from San Jose de Gracia are shipped to third-party smelters, refineries or third parties for further processing or re-sale.

During 2018, we reported the delivery and sale of 13,418 net Oz gold contained in concentrates. All gold-silver concentrate originated from the San Jose de Gracia Property in México.

Gold-silver concentrates are sold at a small discount to the prevailing spot market price, based on the price per ounce of gold and silver quoted at the London PM fix, with the actual net precious metals prices received depending on the sales contract. Concentrates are priced by individual concentrate lots of 36 to 72 tons, or as a series of lots under contract, whereby the final selling price and gold-silver quantities are subject to final adjustments at the time of final purchase settlement.

## **Gold and Silver Pilot Processing Methods**

Gold and silver are extracted from mined mineralized material, by crushing, grinding, milling, and further by simple gravity and flotation recoveries. The mineralized material is extracted by underground mining methods. The processing plant at the San José de Gracia mine is composed of conventional crushing and grinding circuits, and with gravity and flotation recovery methods. The gravity and flotation concentrates are dewatered or dried, and shipped to purchasers in semi-trailers.



## Gold and Silver Reserves / No Known Reserves

The Company currently has no mineral “reserves” as defined by SEC Industry Guide 7 promulgated by the SEC.

## General Government Regulations

### México

Mining in México is subject to numerous federal, state and local laws, regulations and ordinances governing mineral rights, operations and environmental protection.

*Mineral Concession Rights.* Exploration and exploitation of minerals in México may be carried out through Mexican companies incorporated under Mexican law by means of obtaining mining concessions. Mining concessions are granted by the Mexican government for a period of fifty years from the date of their recording in the Public Registry of Mining and are renewable for a further period of fifty years upon application within five years prior to the expiration of such concession in accordance with the Mining Law and its regulations. Mining concessions are subject to annual work requirements and payment of annual surface taxes which are assessed and levied on a semi-annual basis. Such concessions may be transferred or assigned by their holders, but such transfers or assignments must be registered with the Public Registry of Mining in order to be valid against third parties. The holder of a concession must pay semi-annual duties in January and July of each year on a per hectare basis and in accordance with the amounts provided by the Federal Fees Law. During the month of May of each year, the concessionaire must file with the General Bureau of Mines, the work assessment reports made on each concession or group of concessions for the preceding calendar year. The regulations of the Mining Law provide tables containing the minimum investment amounts that must be made on a concession. This amount is updated annually in accordance with the changes in the Consumer Price Index.

*Surface Rights.* In México, while mineral rights are administered by the federal government through federally issued mining concessions, *Ejidors* (communal owners of land recognized by the federal laws in México) control surface access rights to the land. An *Ejido* may sell or lease lands directly to a private entity. While the Company has agreements or is in the process of negotiating agreements with the *Ejido* that impact all of its projects in México, some of these agreements may be subject to renegotiations.

*Mining Royalties.* In October 2013, the Mexican lower house passed a bill levying a tax-deductible mining royalty of 7.5% on earnings before the deduction of interest, taxes, depreciation and amortization, along with an additional 0.5% surcharge on precious metals revenue for mining companies. The effective date of the law was January 1, 2014. Although there are a few uncertainties surrounding the scope, calculation and enforcement of the royalty, based on the Company's current interpretation of the bill, the royalty or surcharge was not material for 2016.

*Environmental Law.* The Environmental Law in México, called the "General Law of Ecological Balance and Protection to the Environment" ("General Law"), provides for general environmental policies, with specific requirements for certain activities such as exploration set forth in regulations called "Mexican official norms". Responsibility for enforcement of the General Law, the regulations and the Mexican official norms is with the Ministry of Environment and Natural Resources, which regulate all environmental matters with the assistance of *Procuraduria Federal de Protección al Ambiente* (known as "PROFEPA").

The primary laws and regulations used by the State of Sinaloa, where our San Jose de Gracia property is located, in order to govern environmental protection for mining and exploration are: The General Law, Forestry Law, Residues Law, as well as their specific regulations on air, water and residues, and the Mexican official norms (known as "NOM-120"). In order to comply with the environmental regulations, a concessionaire must obtain a series of permits during the exploitation and exploration stage. The time required to obtain the required permits is dependent on a few factors including the type of vegetation and trees impacted by proposed activities.

*Mining Permits.* The Secretariat of Environmental and Natural Resources, the Mexican Government environmental authority ("SEMARNAT"), is responsible for issuing environmental permits associated with mining. Three main permits required before construction can begin are: Environmental Impact Statement (known in México as *Manifiesto Impacto Ambiental*) ("MIA"), Land Use Change (known in México as *Estudio Justificativo Para Cambio Uso Sueldo*) ("ETJ"), and Risk Analysis (known in México as *Análisis de Riesgo*) ("RA"). A construction permit is required from the local municipality and an archaeological release letter must be obtained from the National Institute of Anthropology and History (known as "INAH"). An explosives permit is required from the ministry of defense before construction can begin. The Environmental Impact Statement is required to be prepared by a third-party contractor and submitted to SEMARNAT and must include a detailed analysis of climate, air quality, water, soil, vegetation, wildlife, cultural resources and socio-economic impacts. The Risk Analysis study (which is included into the Environmental Impact Statement and submitted as one complete document) identifies potential environmental releases of hazardous substances and evaluates the risks in order to establish methods to prevent, respond to, and control environmental emergencies. The Land Use Change requires that an evaluation be made of the existing conditions of the land, including a plant and wildlife study, an evaluation of the current and proposed use of the land, impacts to naturally occurring resources, and an evaluation of reclamation/re-vegetation plans.

## Customers

The Company sells its concentrates to the buyer who offers the best terms based upon price, treatment costs, refining costs, and other terms of payment. During the year ended December 31, 2018, the Company sold gold-silver concentrates to the following purchasers:

Dore: None.  
Gold-Silver Concentrates: Mercuria Commodities Trading S.A. de C.V.

## **Employees**

As of December 31, 2018, we had 210 employees, including 205 employees based in México, and 5 in the United States. Consultants are retained from time to time. Employees based in México and the United States include laborers, engineers, geologists, information technologists, office administrators, managers and executives. None of our employees in México are covered by union contracts and the Company believes we have good relations with our employees.

## **RISK FACTORS**

### **ITEM 1A.**

This report, including Management's Discussion and Analysis of Financial Condition and Results of Operations, contains forward-looking statements that may be affected by several risk factors. The following information summarizes all material risks known to us at the date of filing this report.

### **Risks Relating to Our Company**

#### *Nature of Mineral Exploration and Mining*

The Company is involved in the business of exploration and development of resource properties, which carries the inherent risk of failure.

The exploration and development of mineral deposits involve significant risks which a combination of careful evaluation, experience and knowledge may not eliminate. There is no assurance that the Company's exploration programs will result in discoveries of commercial mineralized bodies.

The Company's future is dependent upon the success of its exploration programs, and the success of its test mining and pilot milling programs. The exploration and development of mineral deposits involve significant risks over significant periods of time. It is impossible to ensure that the current or proposed exploration programs on the Company's property will result in a profitable mining operation.

Whether a mineralized deposit will be commercially viable depends on many factors, such as size and grade of the deposit, proximity to infrastructure, financing costs, regulations, environmental protection, commodities prices, taxes, and political risks. The impact of these factors cannot be accurately predicted, but the combination of factors may result in the Company's failure to provide a return on investment.

### ***Competitive Business Conditions***

The Company competes with many larger, well capitalized companies, which places the Company at a competitive disadvantage.

The Company competes with many companies in the mining business, including large, established mining companies with substantial capabilities, personnel, and financial resources. There is a limited supply of desirable mineral lands available for claim-staking, lease, or acquisition in México, where the Company's activities are focused. The Company may be at a competitive disadvantage in acquiring mineral properties, since it competes with companies which have greater financial resources and larger technical staffs. From time to time, specific properties or areas which would otherwise be attractive for acquisition or exploration are unavailable due to their previous acquisition by competitors or due to the Company's lack of financial resources.

Competition in the industry extends to the technical expertise to find, advance, and operate mineral properties; the labor to operate the properties; and the capital for the purpose of funding exploration and development activities on such properties. Many competitors explore for and mine precious metals and conduct refining and marketing operations on a world-wide basis. Such competition may make it more difficult for the Company to recruit or retain qualified employees, to obtain equipment and personnel to assist in its exploration and production activities, or to acquire the capital necessary to fund operations.

### ***Government Regulations***

The Company conducts its resource exploration and development activities in México, subject to rules and regulations for owning and maintaining mining concessions and surface rights, environmental protection, water rights, hazardous wastes, explosives, reclamation, and others. There can be no certainty that the Company maintains full compliance with all government regulations.

*México.* Exploration and development of minerals in México may be carried out through Mexican companies incorporated under Mexican law by means of obtaining exploration and development (exploitation) concessions. The Company's concessions are granted by the Mexican government, or acquired from previous owners, are filed in the Public Registry of Mining, and are scheduled to expire from 2028 through 2058. Holders of exploration concessions may, prior to the expiration of such concessions, apply for one or more development concessions covering all or part of the area covered by an exploration concession.

Environmental law in México provides for general environmental policies, with specific requirements set forth under regulations of the Ministry of Environment, Natural Resources and Fishing, which regulate all environmental matters with the assistance of the National Institute of Ecology and the Procuraduria Federal de Protección al Ambiente.

The primary laws and regulations governing environmental protection for mining in México are found in the General Law, the Ecological Technical Standards, and also in the air, water and hazardous waste regulations, among others. In order to comply with the environmental regulations, a concessionaire must obtain a series of permits during the exploration stage. Generally, these permits are issued on a timely basis after the completion of an application by a concession holder. The Company believes it is currently in full compliance with the General Law and its regulations in relation to its mineral property interests in México.

### ***Commodities Prices***

Any potential economic success of the Company's properties will depend to a large extent to the market price of commodities, the future price of which is impossible to predict.

The current value and potential value for properties obtained by the Company is directly related to the market price for gold. The market price of gold may also have a significant influence on the market price of the Company's common stock. If the Company obtains positive drill results and a property progresses to a point where a commercial production decision can be made, the decision to put a mine in production and to commit funds necessary for that purpose would be made long before any revenue from production would be received. A decrease in the market price

of gold at any time during future exploration or development may prevent a property from being economically mined or result in the write-off of assets whose value is impaired as a result of lower gold prices.

The price of gold is affected by numerous factors beyond the Company's control, including inflation, fluctuation of the United States dollar and foreign currencies, global and regional demand, the purchase or sale of gold by central banks, and the political and economic conditions of major gold producing countries throughout the world. During the last five years, the market price of gold has fluctuated between approximately \$1,057 and \$1,895 per ounce. The volatility of gold prices represents a substantial risk which is impossible to fully eliminate. In the event gold prices decline and remain low for prolonged periods of time, the Company might be unable to explore, develop, or produce revenue from its properties.

The volatility of mineral prices represents a substantial risk which no amount of planning or technical expertise can fully eliminate. In the event mineral prices decline and remain low for prolonged periods of time, we might be unable to develop our properties, which may adversely affect our results of operations, financial performance and cash flows. Our results of operations have been and could continue to be materially and adversely affected by the impairment of assets. An asset impairment charge may result from the occurrence of unexpected adverse events that impact our estimates of expected cash flows generated from our producing properties or the market value of our non-producing properties.

The volatility in gold, silver and copper prices is illustrated by the following table, which sets forth, for the periods indicated, the average market prices in U.S. dollars per ounce of gold and silver, based on the average daily London P.M. fix, and per pound of copper based on the London Metal Exchange Grade A copper settlement price.

<b>Metal</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
Gold	\$1,669.00	\$1,411.00	\$1,266.00	\$1,175.00	\$1,236.00	\$1,244.00	\$1,268.00
Silver	31.15	23.79	19.08	13.90	17.14	17.77	15.71
Copper	3.61	3.32	3.11	2.09	2.54	2.80	2.96

As of March 31, 2019, the price of gold was \$1,295 per ounce. Should a downward trend in prices occur, there is a possibility that we may record impairment charges in 2018, or in future years.

### ***Revenue***

The Company suspended its test pilot production activity in June 2006 in order to focus on exploration activities. The Company re-commenced test mining and pilot production work in 2014. There is a risk that the Company would expend available cash and funding in test mining and milling activities, and administration costs, and would not be able to obtain further funding to continue its work.

In 2007, the Company focused on the exploration of the vast SJG district. Funds received by DynaMéxico pursuant to the Earn In/Option Agreement (See Earn In / Option Agreement – Financing of Drilling – Exploration Programs (2006 – 2011), were utilized for exploration and related activities.

In 2015, the Company commenced test mining and pilot milling operations. And during 2018, the Company improved and expanded its operations in order to increase outputs from the test mining and pilot milling activities.

The Company and its subsidiaries have \$2,685,576 cash on hand at December 31, 2018. The Company could incur test pilot production expenses and corporate expenses greater than the amount of available cash on hand. The Company may need to raise additional funds in order to support its activities. If the Company needs to raise additional capital, its common stock could be diluted. Further, if the Company is unable to raise funds to meet its obligations, the value of its common stock may decline.

#### ***Substantial Control of Chairman / Preferred Shares***

The Company's Chairman / CEO owns 100% of the outstanding shares of Series A preferred stock. The Series A preferred shares retain the right to elect a majority of the members of the Company's Board of Directors. Such ownership and concentration of control may have the effect of delaying, deferring or preventing a change in control of the Company, even if the transaction could be determined to be beneficial to Company's stockholders.

#### ***Capital Needs***

The Company may need to raise additional capital, which may not be available or may be too costly, and which, if not obtained, could cause the Company to cease operations.

The Company's capital requirements could be greater than its operating income. The Company believes it has adequate cash on hand for the foreseeable future, but it does not have sufficient cash to indefinitely sustain operating losses. The Company's liquidity depends on its ability to raise capital through the sale of common stock or through debt or equity offerings. Additional financing may not be available, or, if available, may be on terms unacceptable or unfavorable. If additional capital is required and not obtained, or if the Company is not able to produce sufficient revenue from operations, or otherwise operate at a profit, the value of investment in the Company could decline or be lost entirely.





### ***Illiquid Market***

The Company has a limited public market trading on the *Over the Counter Market* (“OTC”), and an active trading market may never materialize, and an investor may not be able to sell stock.

There is currently only a limited public market for the Company’s Common Stock and there can be no assurance that a more robust trading market will develop further or be maintained in the future. An active trading market may not develop and if not, the market value could decline to a value below the amount investors paid for stock. Additionally, if the market is not active or illiquid, investors may not be able to sell the securities of the Company.

### ***Penny Stock Classification***

If a public trading market for the Company’s common stock materializes, it may be classified as a ‘penny stock’ which would result in additional requirements for trading the stock. These additional requirements could affect the liquidity of the stock.

The SEC has adopted regulations which generally define a “penny stock” to be an equity security that has a market price of less than \$5.00 per share, subject to specific exemptions. The market price of the Company’s Common Stock may trade at less than \$5.00 per share and accordingly may be a “penny stock.” Brokers and dealers effecting transactions in “penny stock” must disclose certain information concerning the transaction, obtain a written agreement from the purchaser and determine that the purchaser is reasonably suitable to purchase the securities. These rules may restrict the ability of brokers or dealers to sell the Common Stock and may affect an investor’s ability to sell such shares.

### ***Title Matters***

#### ***No Guarantee of Title***

The Company has investigated title to all mineral claims and properties, and, to the best of its knowledge, title to all mineral claims and properties comprising the SJG District is in good standing. However, there can be no assurance of

complete title, nor guarantee of title. The mineral claims and properties may be affected by undetected defects in title, such as the reduction in size of the mineral claims and other third-party claims affecting the Company's rights.

***Our business requires substantial capital investment and we may be unable to raise additional funding on favorable terms to develop additional mining operations.***

We will need to obtain additional financing, either in the form of debt or equity financing, to fund development of additional mining operations at the San Jose de Gracia project and to continue our administrative activities. Our ability to obtain necessary funding, in turn, depends upon a few factors, including the state of the economy and applicable commodity prices. We may not be successful in obtaining the required financing for San Jose de Gracia or other purposes, on terms that are favorable to us or at all, in which case, our ability to continue operating would be adversely affected. Failure to obtain such additional financing could result in delay or indefinite postponement of further exploration or potential development and the possible partial or total loss of our interest in certain properties.

***The feasibility of mining at our San Jose de Gracia property has not been established in accordance with SEC Industry Guide 7, and any funds spent on exploration and development could be lost.***

A "reserve," as defined by Industry Guide 7 of the SEC, is that part of a mineral deposit which could be economically and legally extracted or produced at the time of the reserve determination. A reserve requires a SEC-compliant feasibility study or other report demonstrating with reasonable certainty that the deposit can be economically extracted and produced. Since we have not received a SEC-compliant report on any of our properties, we currently have no reserves as defined by SEC Industry Guide 7, and there are no assurances that we will be able to prove that there are reserves on our properties.

The mineralized material identified on our properties, including the San Pablo mine where we are currently conducting test mining activities does not and may never demonstrate economic viability. Substantial expenditures are required to establish reserves through drilling and additional study and there is no assurance that reserves will be established. The feasibility of mining at San Jose de Gracia, or any other property has not been, and may never be, established. Whether a mineral deposit can be commercially viable depends upon a few factors, including the particular attributes of the deposit, including size, grade, metallurgical recoveries and proximity to infrastructure; metal prices, which can be highly variable; and government regulations, including environmental and reclamation obligations. If we are unable to establish some or all of our mineralized material as proven or probable reserves in sufficient quantities to justify commercial operations, our investment in that property may be lost, and the market value of our securities may suffer.

There are significant risks and uncertainty associated with construction, commencing or expanding test mining and pilot production activities or changing operational plans without a current feasibility, pre-feasibility or scoping study. As such, the San Jose de Gracia property may ultimately be determined to lack one or more geological, engineering, legal, operating, economic, social, environmental, and other relevant factors reasonably required to serve as the basis for a final decision to successfully complete all or part of these projects.

***The figures for our estimated mineralized material are based on interpretation and assumptions and may yield less mineral production under actual conditions than is currently estimated.***

Unless otherwise indicated, mineralization figures presented in our filings with Canadian securities regulatory authorities (on SEDAR), news releases and other public statements that may be made from time to time are based upon estimates made by independent geologists and our internal geologists. When making determinations about whether to advance any of our projects to development, we must rely upon such estimated calculations as to the mineralized material and grades of mineralization on our properties. Until mineralized material is actually mined and processed, mineralized material and grades of mineralization must be considered as estimates only.

These estimates are imprecise and depend upon geological interpretation and statistical inferences drawn from drilling and sampling analysis, which may prove to be unreliable. We cannot ensure that:

these estimates will be accurate;

mineralization estimates will be accurate; or

this mineralization can be mined or processed profitably.

Any material changes in mineral estimates and grades of mineralization may affect the economic viability of placing a property into production and such property's return on capital. There can be no assurance that minerals recovered in small scale tests will be recovered in large-scale tests under on-site conditions or in production scale. The estimates contained in our public filings in Canada (on SEDAR) have been determined and valued based on assumed future

prices, cut-off grades and operating costs that may prove to be inaccurate. Extended declines in market prices for gold and/or silver may render portions of our mineralization estimates uneconomic and result in reduced reported mineralization or adversely affect the commercial viability of one or more of our properties. Any material reductions in estimates of mineralization, or of our ability to extract this mineralization, could have a material adverse effect on our results of operations or financial condition.

***Legislation has been enacted that affects the mining industry***

In México, in October 2013, the Mexican lower house passed a bill proposing a tax-deductible mining royalty of 7.5% on earnings before the deduction of interest, taxes, depreciation and amortization, along with an additional 0.5% on precious metals revenue for precious metals mining companies. In addition, the long-term corporate tax rate is expected to remain at 30% rather than being reduced to 28% as originally planned. The Mexican Senate approved the provisions of the Tax Reform on October 31, 2013. The effective date of the law was January 1, 2014.

***Dependence upon Key Personnel***

The Company is dependent upon the efforts and abilities of its management team.

The loss of any member of the management team could have a material adverse effect upon the business and prospects of the Company. In the event of such loss, the Company will seek suitable competent replacements, but there is no assurance that the Company will be able to retain such replacements. The Company has obtained a Key Man Life Insurance program for its Chairman and CEO, which would pay the proceeds of such policy to the Company in the event of his death.

***Uncertainty of Resource Estimate***

There can be no certainty that any resource estimate by the Company's consultants would ever be realized in production.

The current formal resource estimate in respect of the SJG Property (the "NI 43-101 Mineral Resource Estimate") is based on limited information, such as historical data, drilling programs, the production activity conducted by the Company in 2003–2006, and various reports, manual calculations and opinions. No assurance can be given that the anticipated tonnages and grades will be achieved or that the estimated or indicated level of recovery will be achieved. The grade of mineralization actually recovered or produced could differ significantly from the resource estimates. In addition, under U.S. standards, as set forth in SEC Industry Guide 7, mineralization may not be classified as a "reserve"

unless a determination has been made that the mineralization could be economically and legally produced or extracted at the time the reserve determination is made. The SJG Property as described in this Annual Report is without known reserves. Mineral resources which are not classified as mineral reserves do not have “demonstrated economic viability.” The quantity of resources and the quality (grade) of resources reported as “Indicated” and “Inferred” mineral resources in the mineral resource estimate compiled for DynaMéxico, under the NI 43-101 Mineral Resource Estimate filed by the Company on SEDAR, are not disclosed in this Form 10-K. There has been insufficient exploration to define any mineral reserves on the SJG Property, and it is not certain if further exploration will result in definition of mineral reserves.

***No Known Reserves***

***Historical Production of Gold at the San Jose de Gracia Property May Not Be Indicative of Future Production or Revenue***

The SJG Property is a high-grade mineralized system with reported historical production of over 1,000,000 Oz. Gold. The production occurred in the early 1900's, prior to the Mexican Revolution. Since that time, the property has seen small scale mining operations, from small scale local owners, to the Company's pilot production activities in 2003–2006 and 2014 to present. Due to the uncertainties associated with exploration, including variations in geology and structure, there is no assurance that the Company's efforts will be successful in identifying mineralization in sufficient quantities to define proven or probable reserves, and further there is no assurance that any such reserves could be developed into a commercial operation. Investors in the Company's securities should not rely on historical operations as an indication that the SJG property will be developed into a commercial production in the future. The Company expects to incur losses unless and until such time as one or more of its properties enters into commercial production and generates sufficient revenue to fund continuing operations.

***Environmental and Regulatory Concerns***

The Company operates in an industry where there are significant environmental and regulatory requirements. The inability of the Company to satisfy these requirements could cause the value of its common stock to decline.

The current or future operations of the Company, including acquisition, leasing, and sales activities, involve mineral properties which require permits from various federal, state and local governmental authorities. Such future operations are and will be governed by laws and regulations governing prospecting, development, mining, production, exports, taxes, labor standards, occupational health, waste disposal, toxic substances, land use, environmental protection, mine safety and other matters. Companies engaged in the development and operation of mines and related facilities generally experience increased costs, and delays in production and other schedules as a result of the need to comply with applicable laws, regulations and permits. Additional permits and studies, which may include environmental impact studies conducted before permits can be obtained, are necessary prior to operation of properties in which the Company has interests. Required permits could adversely affect the Company's ability to negotiate agreeable acquisition, lease, or sales terms and therefore adversely affect the price of the Company's common stock.

***Our business is subject to U.S. Foreign Corrupt Practices Act and similar worldwide anti-bribery laws, a breach or violation of which could lead to civil and criminal fines and penalties, loss of licenses or permits and reputational harm.***

We operate in certain jurisdictions that have experienced governmental and private sector corruption to some degree, and, in certain circumstances, strict compliance with anti-bribery laws may conflict with certain local customs and practices. For example, the U.S. Foreign Corrupt Practices Act and anti-bribery laws in other jurisdictions, generally prohibit companies and their intermediaries from making improper payments for the purpose of obtaining or retaining business or other commercial advantage, and often carry substantial penalties. There can be no assurance that our internal control policies and procedures always will protect it from recklessness, fraudulent behavior, dishonesty or other inappropriate acts committed by the Company's affiliates, employees or agents. As such, our corporate policies and processes may not prevent all potential breaches of law or other governance practices. Violations of these laws, or allegations of such violations, could lead to civil and criminal fines and penalties, litigation, and loss of operating licenses or permits, and may damage the Company's reputation, which could have a material adverse effect on our business, financial position and results of operations or cause the market value of our common shares to decline.

***We are subject to foreign currency risk.***

While we transact most of our business in U.S. dollars, expenses, such as labor, operating supplies, and property and equipment, are denominated in Mexican pesos. As a result, currency exchange fluctuations may impact our operating costs. The appreciation of non-U.S. dollar currencies against the U.S. dollar increases costs and the cost of purchasing property and equipment in U.S. dollar terms in México, which can adversely impact our operating results and cash flows. Conversely, a depreciation of non-U.S. dollar currencies usually decreases operating costs and property and equipment purchases in U.S. dollar terms in foreign countries.

The value of cash and cash equivalents denominated in foreign currencies also fluctuates with changes in currency exchange rates. Appreciation of non-U.S. dollar currencies results in a foreign currency gain on such investments and a depreciation in non-U.S. dollar currencies results in a loss. We have not utilized market risk sensitive instruments to manage our exposure to foreign currency exchange rates but may in the future actively manage our exposure to foreign currency exchange rate risk. We also hold portions of our cash reserves in Mexican currency.



***Increased operating and capital costs could affect our profitability.***

Costs at any particular mining location are subject to variation due to a few factors, such as variable ore grade, changing metallurgy and revisions to mine plans in response to the physical shape and location of the mineralized bodies, as well as the age and utilization rates for the mining and processing-related facilities and equipment. In addition, costs are affected by the price and availability of input commodities, such as fuel, electricity, labor, chemical reagents, explosives, steel and concrete and mining and processing-related equipment and facilities. Reported costs may also be affected by changes in accounting standards. A material increase in costs at any significant location could have a significant effect on our profitability and operating cash flow.

We could have significant increases in capital and operating costs over the next several years in connection with the development of new projects and in the sustaini